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JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, September 1, 2005
9:30 a.m.
House Hearing Room 4

- R E V I S E D -

MEETING NOTICE

- Call to Order

- Approval of Minutes of July 21, 2005.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION -
  A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
  B. Review for Committee the Planned Contribution Strategy for State Employee Retiree Health Plans as required under A.R.S. § 38-658A.

1. AHCCCS - Review of Capitation Rate Change.

2. DEPARTMENT OF ECONOMIC SECURITY - Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase.

3. DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.

4. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

5. ATTORNEY GENERAL - Review of Uncollectible Debts.

6. ARIZONA COMMISSION ON THE ARTS - Review of the Arizona Arts Endowment Fund and Private Contributions.

The Chairman reserves the right to set the order of the agenda.
08/29/05

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HOUSE OF
REPRESENTATIVES

R E V I S E D

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

July 21, 2005

The Chairman called the meeting to order at 9:45 a.m., Thursday, July 21, 2005, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Biggs	Senator Arzberger
	Representative Boone	Senator Cannell
	Representative Gorman	Senator Garcia
	Representative Tully	Senator Harper
		Senator Martin
Absent:	Representative Burton Cahill	Senator Bee
	Representative Huffman	Senator Waring
	Representative Lopez	

APPROVAL OF MINUTES

Representative Pearce moved that the Committee approve the minutes of June 28, 2005. The motion carried.

EXECUTIVE SESSION

Senator Burns moved that the Committee go into Executive Session. The motion carried.

At 9:46 a.m., the Joint Legislative Budget Committee went into Executive Session to discuss the Arizona Department of Administration Risk Management report and the FY 2006 State Employee Health Insurance Contribution Strategy.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 11:35 a.m. the Committee reconvened into open session.

DEPARTMENT OF ECONOMIC SECURITY - Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies.

Mr. Russell Frandsen, JLBC Staff, said this item is a request for a review of appropriated funds for the federal Workforce Investment Act. DES has submitted their plan for the use of funds as noted in the table in the JLBC agenda.

Representative Boone asked how many staff salaries were included in the $600,000 set-aside for staffing the Governor's Council on Workforce Policy.

Mr. Frandsen stated that the FTE figures are 6.94 and salary only figures are $363,026 exclusive of Employee Related Expenses. Some of the other expenditure categories included travel conferences, and building lease costs.

Senator Burns moved that the Committee give a favorable review to the expenditure plan for $2.3 million of the discretionary portion of federal Workforce Investment Act monies received by the state for FY 2006 as recommended by JLBC Staff. The motion carried.

DEPARTMENT OF HEALTH SERVICES (DHS) - Review of Behavioral Health Title XIX Capitation Rates.

Mr. Richard Stavneak, JLBC Director, said this item is a review of the capitation rate adjustments proposed in the DHS for the Title XIX behavioral health programs. He covered an excerpt from a budget presentation in February on DHS in regard to what are the capitation rates and the background of the Behavioral Health System. Mr. Stavneak stated about $60 million for cap rates was budgeted, this proposal will cost about $75 million, explained the 3 main reasons for the increase as outlined in the JLBC Staff recommendation memo.

Senator Garcia stated that since the department doesn't require approval, does that include the shifting of responsibility from the county to DHS for behavioral health services. Mr. Stavneak stated there is no statutory requirement in terms of who covers those services.

Senator Garcia asked if the the reverse is true, that costs could be shifted back to the counties. Mr. Stavneak stated that they could, assuming they would change the capitation rate in the future year.

Representative Boone asked whether shifting $3.3 million for the DES portion and $1.6 million for the county is a potential savings of $4.9 million. Mr. Stavneak stated JLBC is suggesting that the involved entities report back, as we have asked DHS if they know how much the counties are currently spending on juvenile detention services and at that point they did not know the answer.

Representative Boone asked if they agreed to provide that report. Mr. Stavneak stated he did not specifically talk to them yet about providing the report. This is why this is in the recommendation memo.

Senator Cannell asked whether the policy of shifting the care for kids from the county and DES to DHS is going to be lost or are the same providers going to continue their care.

Mr. Eddie Broadway, Deputy Director, Department of Health Services, Behavioral Health stated this has been a gradual process with the capitation rates. We have been working with the counties, the children in this case are Title XIX eligible and many are in assistance currently. When they went into the detention facilities, their benefit would automatically be suspended. An agreement with AHCCCS and the detention facility has been worked out so that if they are held under such things as status offenses, their benefit would not go away and they would continue to be eligible for Title XIX services, and therefore, continue to be eligible for services in the new budget.

Senator Garcia asked if this was only going to be for status offenses. Mr. Petkiewicz stated that it was just one example. AHCCCS holds the eligibility. As long as they remain eligible, services will be provided.

Senator Garcia stated that he wanted to make sure that if there is going to be a policy change, that we need to cover as many kids as possible.

Mr. Broadway stated that as long as they maintained their eligibility into AHCCCS this decides that typically if they're over a period of time, chances are that they would lose their benefit. When the services would be provided through the county they are often through the same providers.

Senator Garcia asked if AHCCCS is available to tell us if they have a date or number of dates for the transition.

Mr. Broadway said this was on a case by case basis.

Senator Burns asked that of the FY 2005 shortfall, budgeting $60 million for inflation adjustments, why wasn't the agency was not able to stay within that amount?

Mr. Chris Petkiewicz, Chief Financial Officer for Behavioral Health Services said we did an analysis of the needs of the Title XIX SMI population and found out that as a result of Arnold vs. Sarn, we needed approximately 525 case managers in Maricopa County, 70 rehabilitation specialists, 63 clinical subordinations, 23 housing specialists, 47 abuse subordinators, and we need to transition approximately 17 people out of the state hospital in order to meet the maximum 55 person census level as part of the Arnold vs. Sarn lawsuit, transition 50 people out of supervisory care. These are the key factors that drove up the costs to the program adjustment to the Title XIX capitation rate.

Senator Burns asked what the department's plan was as far as resolving the issue of the $15 million shortfall. Mr. Broadway said we will have to wait until the end of the month to determine what the shortfall is.

Senator Burns asked if they are not in agreement that it's $15 million. Mr. Broadway stated it might be that amount and they may need to seek a supplemental appropriation.

Senator Burns stated that once the agency determines that there is going to be a shortfall, there is a requirement in statute that says a letter should be sent in relative to that issue. He indicated that he does not know where the letter is at this point.

Mr. Petkiewicz said they are currently working on the analysis and he is aware of the statutory requirement. A letter will be sent in less than 2 weeks. They are waiting for the next member months to show up for August so there is 2 months of numbers this fiscal year.

Senator Burns asked what the analysis is as to what the savings might be based on this transfer.

Mr. Petkiewicz said they worked with DES last year and drafted and sent a letter to JLBC and last year the dollars saved were close to the adjustments that were made in last year's capitation rates. The analysis has not been done yet this year.

Representative Pearce stated he understood the $15 million number came from DHS as a potential shortfall. Mr. Broadway stated he was not aware of that.

Representative Pearce said if we do not know where it is at now and we are anticipating a shortfall; he was concerned as to why that was not on the Governor's list of priorities at the end of the session.

Mr. Petkiewicz stated he could not answer that, but when they finish their analysis they will inform him of the projections of the shortfall.

Representative Pearce said he is not sure how they came up with the $15 million shortfall and when we put in a $60 million inflation factor into the DHS, he is concerned why we could not do this within budget and why there could be a shortfall in the first place.

Representative Boone wanted to clarify if the $15 million is projected to fall in the 2006 budget.

Mr. Petkiewicz said that was his understanding.

Representative Boone asked there might not be a request for a supplemental because the department might be able to take care of that internally.

Mr. Petkiewicz said he did not try to convey that message.

Senator Burns asked if the 2-week timeframe relative to the $15 million also includes transfer information between DHS and DES.

Mr. Petkiewicz said the JLBC analyst recommended that by October 31, a letter to JLBC showing the savings that DES had accrued and the expenses that DHS as incurred as a result of the taking on the care of the kids.

Mr. Stavneak stated the timeline for the letter is October 1.

Senator Burns said adjustments made to the Maricopa SMI capitation rate is up to $317 million, what does that do as far as resolving the Arnold vs. Sarn.

Mr. Petkiewicz said a court monitor is currently working on an audit of the progress that has been made to date. It is not fair to comment on whether the $317 million will meet all the needs until we have a good idea of what findings the audit from the court monitor may have.

Ms. Susan Gerard, Director, Department of Health Services said her understanding was that the estimate was based on the Leff Report. The estimate was what it would cost to bring the system up to provide the services that were required by the lawsuit. That was the number that came from that report. That is also current dollars, not what dollar costs would be 3 or 4 years down the road because that report was a couple of years out of date. The agreement was that we would agree that would be the number. What the actual number will be will depend on things like how many people present times what the capitation rate is, which is dependent on utilization rates. This is an estimate.

Senator Burns said you had a number of components that had to be addressed in this agreement and this was an estimate of $317 million, so if those components can be addressed for that money, then we ought to have an agreement.

Ms. Gerard said it was not just about dollars, it's also about passing these audits to show we are actually taking care of the needs of the SMI people in Maricopa County, so we could potentially spend more money. If the court finds that we still haven't satisfied the requirements we would still be considered out of compliance.

Senator Burns asked if the agreement involves additional funding, why was the Legislature not included in the loop. Ms. Gerard stated that the Legislature was not named in the lawsuit.

Representative Pearce said when the agency knows that the Legislature needs to be involved and has to deal with additional money, the Legislature needs to be notified and consulted before there is an agreement to pay more money.

Ms. Gerard agreed and will keep everyone involved.

Representative Boone asked if the financial issue of the capitation rates constitute the request as required by the settlement.

Mr. Robert Source, Assistant Attorney General Representing Department of Health Services stated that the request was for the department to ask the Governor to seek $317 million so it was never a direct request for the Legislature to appropriate the money. We agreed to ask the Governor to put that in her budget and then that budget would be subject to negotiation with the Legislature. That was the requirement and that is what we did.

Representative Boone asked if the capitation change fulfills that formal request. Mr. Source said that is correct.

Representative Boone asked if the recommendation takes care of the financial requirement of the settlement. Mr. Source said that is correct.

Representative Biggs wanted clarification on the department's responsibility per the agreement with the court monitor.. Ms. Gerard said they have to request it in the Department of Health Services budget that goes to the Governor.

Representative Biggs asked if the mere fact that the request was made, then the department would be in compliance of the court order. Mr. Source said that was correct.

Representative Biggs asked if this would give us a legal release after this money.

Ms. Gerard stated this is just one requirement of the lawsuit; there are 19 stipulations in the exit criteria. The department is looking at June 2008 to exit the lawsuit, but everything we were told we have to have done, needs to be done prior to this. Part of this is the regular audits.

Representative Gorman asked if DES is going to show a $3.3 million surplus in the budget or will we never see the money.

Ms. Gerard stated that she was unsure. Initially when changes were made we did a transfer from DES, but when you get into subsequent years and we work it into the capitation rate, it will be taken out of the DES budget. They are not transferring it to us.

Senator Burns moved that the Committee give an unfavorable review of DHS' capitation rate changes. The Committee requests DES, DHS, and Juvenile Detention Centers to report by October 1, 2005 as stated in the recommendation by the JLBC Staff. The motion carried.

JOINT LEGISLATIVE BUDGET COMMITTEE STAFF - Report on Phoenix Medical Campus.

Ms. Shelli Carol, JLBC Staff, said this item is a staff report on the Phoenix Medical Campus. The Higher Education Budget Reconciliation Bill directs the University of Arizona (UA) to establish the Phoenix Medical Campus at the site of the former Phoenix Union High School. The bill has limited the campus to one class of 24 students at an annual cost to the General Fund of $7 million. That appropriation has divided $6 million to UA Health Sciences Center and $1 million to Arizona State University (ASU) Department of Biomedical Informatics.

Mr. Jaime Molera, Representing Arizona Board of Regents, said one of the things important in heading toward the September 1 deadline is to report to the Legislature and have a better idea as to the issues are important in order to make good decisions and possible policies. How much is this going to cost before build-out has been the question since this started. We have provided detailed information at the Level I funding. Level II which will be the full build-out of having the whole College of Medicine that would have 125-150 students per year graduating. The cost will be detailed in the report to the Legislature on September 1.

Representative Pearce said this was not part of the budget deal last session and was added at the last minute. He said we have ranking to compete in getting the best and the brightest, and with that comes federal money and grants. Instead of working to make the UA Medical School where we want it to be, how is this going to affect the overall ranking by opening a second medical campus that may detract from UA Medical School and maybe hurt the ranking.

Mr. Molera stated that expanding the College of Medicine would be a tremendous improvement in our ability to attract the best and brightest and to have that kind of economic engine that the Colleges of Medicine often are for communities and states. The Flinn Foundation did a national report that showed the state ranks 46th in being able to prepare new doctors for the future. The four states below us do not have a college of medicine. We are behind in our ability to attract doctors from other states. This gives us an opportunity to attract people to improve our economic stance and our health care policy for the state.

Senator Burns asked how they plan to fund the additional costs in addition to the General Fund. Mr. Molera said it would be listed in the report as not just state appropriated dollars, but all the resources that will go into this College of Medicine. The Legislature will have a full accounting.

Senator Burns asked how much private and federal funding is anticipated to be received and what is the status of the efforts to ensure open access to the clinical rotations issue.

Mr. Molera said the policy has been changed by the UA College of Medicine. We will not preclude hospitals with making rotation arrangements with two schools. This is why there was a request by the colleges to put a footnote in saying we will be barred from doing this in the future.

Senator Burns asked what the status is of the discussions with the hospital near the medical school and what efforts are being put forth. He asked if a new hospital were built, would there be a detrimental effect to the existing hospitals. What is the connection to the relationship between ASU's $1 million for the new Bioinformational Department and

TGEN. A concern is the medical schools have too much emphasis on research and not enough emphasis on producing doctors to go out and practice medicine on patients. There needs to be a comfort level provided in that area. We also understood that there would be classes starting in 2006 and now it is 2007. He asked how that would affect the funding put forth for 2006 classes.

Mr. Molera stated there were discussions with staff and members about the process prior to the funding being allocated. The report highlights that because of the accrediting process and the timeline. He stated that we would be able to use the facilities with clinical rotation starting in 2007.

Representative Pearce stated that was alluded to, but the actual funding was given for the 2006 class. He asked what is going to happen to the $7 million that was funded for 2006.

Mr. Molera said the funding is going to be used for this initial year. Most of the funding is going to be used for equipment to staff the facility to build up the telemedicine capability.

Representative Pearce stated that the funding was for 24 students and that we were not funding capital.

Mr. Molera stated they were very clear and detailed with stating exactly how the money would be used over the first 2 years. In order to have accreditation all the resources are critical. The intent is to get classes starting quickly.

Senator Burns asked about the space issues. More space may be needed in addition to the current site. Mr. Molera stated that there will be detail on space, funding, and how it will be obtained, along with the relevant equipment needs.

Representative Biggs asked that of the incremental programs why we need $1.4 million in new money for curriculum development.

Mr. Molera stated that it would be a major piece of an explanation as to what is happening. UA is going through an accreditation process; they are going through every facet.

Representative Biggs asked how much ASU is contributing toward the curriculum development. Mr. Molera said he will provide the information.

Representative Biggs said UA has plans to allocate $35-40 million regarding capital and operating expenses over 5 years. He asked if there is an annual distribution breakout of those funds, a reallocation from other UA departments or from the medical school, and how are those funds are going to be made up if there is a reallocation.

Mr. Molera said right now UA has lease space that will be shut down. He indicated that they will show how much is being spent and how much is being shifted over.

Representative Tully wanted clarification as to who was doing the report. Mr. Molera stated that it will be a collaborative effort and ABOR is overseeing with UA and ASU.

Representative Tully asked that the report explain why the new medical school needs to be in Phoenix, how many doctors will be expected in the future, why money should be spent on a new medical school instead of spending the money elsewhere, and anything that can be added to explain the medical school.

Representative Gorman asked what percentage of doctors will be research doctors as opposed to actual healthcare providers; will there be any requirement to practice in Arizona; is there any contingency plan in case the Legislature provides no more funding, and will any private entities come in and partner with the university to build the new medical campus.

Senator Burns asked for feedback on efforts made to address the issue of retention of the doctors within the state as opposed to turning this into a university that provides a training field for other states.

Senator Cannell asked how this is going to interact with the residency programs in the Phoenix area. How is the reaction/interaction between the residents and students and the students and doctors in practice, to the residency programs? How is the residency training program going to change so that when residents training in Arizona come out, will there spots in Arizona for them to train and will these spots involve recommending the practice of medicine instead of research.

Representative Pearce asked if the city currently owns the land.

Kevin DeMenna, representing City of Phoenix, said the land has been accepted, with the exception of the 3 buildings as outlined. Phoenix Union will negotiate with Mr. Kaufman in a friendly manner on a final price. It is without question that we control the land.

Representative Pearce asked if some of this will be paid out of the bond election coming up in the City of Phoenix.

Mr. DeMenna said the renovation of the 3 buildings of the Phoenix Union has been used under the Historic Preservation Funds. All of the land referred to, 15 current plan acres and 28 future plan acres, is in control by the City of Phoenix.

Representative Pearce asked if the land is going to be acquired by eminent domain, what the plan is and how are we going to get to the expansion.

Mr. DeMenna said he cannot tell if categorically the answer is no. Within the footprint of what is under consideration, there are 3 buildings owned by Mr. Kaufman. The city has been in them and would now like to take ownership. They are currently in a friendly condemnation action with the owner for tax benefits. The closing should be within the next few months.

Mr. Stavneak said both Committees will be appointing members to serve on the Joint JLBC/JCCR Subcommittee designed to explore the University submission in a separate meeting in mid-September. By October 5, there will be a meeting with this committee to review the formal plan as submitted.

No action was required on this item.

DEPARTMENT OF CORRECTIONS - Report on Health Care Contracts.

Mr. Stavneak stated there is no information provided and this was just added to the agenda because of interest in this subject.

Ms. Kimberly Cordes-Sween, JLBC Staff, said this item relates to the Department of Corrections (DOC) health care contracts. The department provides routine and emergency medical services to inmates on site at prison facilities and also contracts with outside providers for major medical treatment. Currently 10 hospitals and medical care providers are contracted or are in the process of renewing their contracts with the department. Maricopa County contract for services to the Phoenix area detention facilities and that was scheduled to expire on June 30. The department issued a request for proposal (RFP) for this area and the Maricopa County was the only provider that submitted a bid. Within the past year AHCCCS has taken over the department's bidding processing and as a result has changed some of the requirements for the department health care contracts and necessary components of health care proposals. The department determined that Maricopa's submission could not be properly evaluated nor could they extend an offer due to the fact that information related to the new AHCCCS components was not provided. The department has rescinded and reissued the RFP which will allow Maricopa to re-bid. The Maricopa contract has been extended by 90 days to ensure no break in service. The Maricopa RFP has drawn concern and for this reason the Chairs requested that the department provide this update on the status of the health care contract.

Representative Pearce asked why the RFP was rescinded.

Gary Phelps, Deputy Director, Department of Corrections said that in 2003 the department became aware that some of the patients at non-contract hospitals could become AHCCCS eligible. In 2004 we asked for AHCCCS rates plus 55% to lower the cost to the department. In anticipation of the legislation passing, the Appropriations Committee took \$2.4 million out of the Health Services budget. We signed an IGA with AHCCCS for the metropolitan areas to use their tiered billing system, not their rate, as a third party to go through the billings from the vendors. RFP's were issued in

Tucson and Phoenix. St. Mary's in Tucson was signed a year ago. In April an RFP was sent out for Maricopa County. Maricopa County was the only responder. The proposal was submitted on June 3, but provisions of the contract could not be evaluated because it was labeled N/A.

Representative Pearce said the purpose of the RFP was to lower the rates to be closer to the AHCCCS rates. He asked why there would be a solicitation of additional bids versus clarifying the issues through an addendum.

Mr. Phelps said this was a normal process and there are clarification periods prior to the submitting of the proposal. We are not soliciting additional bidders. It's based on using AHCCCS as a third party billing to better bill and use their tiered system.

Representative Pearce asked what the efficiency standard is they are hoping to address.

<u>Mr. Gary Pinkstaff, Health Services, Department of Corrections</u> said one of the major changes that was addressed when the RFP went out was that they were going to use the tiered per diem program that AHCCCS had.

Representative Pearce said that can go in the communication of the clarification put in the response to the RFP addendum.

Mr. Pinkstaff said it was in the cover that went out with the RFP. The question was not asked by anyone from Maricopa County regarding clarification or was it necessary that they bid as we requested.

Representative Boone asked if the RFP was for medical care for the DOC. Mr. Pinkstaff said yes, inpatient care and outpatient services.

Representative Boone asked how many RFP's did we have in the past.

Mr. Pinkstaff said the RFP that the contract has expiring on June 30 was awarded in 2000. The first RFP where we were addressing the tiered per diem and using AHCCCS as the third party administrator was done a year ago and also for the Pima County was also awarded to St. Mary's. This is the first time we have done this specific kind of RFP in the Maricopa County area with the same services in specialty and inpatient care.

Representative Boone asked how long Maricopa County has been the provider. Mr. Pinkstaff said the last contract was awarded for in 2000 5 years.

Representative Boone asked if there was a contract awarded to them prior to the 2000 contract. How long has the contracting with them been going on with the Maricopa County Hospital?

<u>Mr. John McDonald, Maricopa Integrated Health Care System</u>, said 10 years.

Representative Boone asked if they were the only RFP respondent at that point. Mr. McDonald stated that was correct.

Representative Boone said if they were the only responders in the past and they have been under contract, isn't it a sole source? If they are going to be the only one responding again and there is no other information about any other providers to this area, why isn't it just deemed a sole source and negotiate directly with them.

Representative Pearce asked when the RFP was rescinded.

Mr. Phelps answered on June 16. When the RFP was rescinded, they went back and added clarification that they were looking for the AHCCCS tier idea, but not necessarily the rate. Also there was an amendment to the contract which was put in the appropriate place in the new RFP.

Mr. Phelps said their effort as a department is to try to get the best value and use AHCCCS as the third party to get a better deal. The department's total hospital bill is $30 million and the county part of it is $4-5 million.

Representative Boone said you do not have to do an RFP on a sole source; you can just sit and negotiate with your sole source vendor.

Senator Cannell said it seems we are asking Maricopa County to take a smaller payment for taking care of the patients. They should not be forced to accept a fee that is less than what it costs to provide care.

Mr. McDonald said when the district chose to respond to the RFP in the manner in which it did, it was anticipated by the health care district that the N/A response would lead to further negotiations and discussion to clarify points regarding the AHCCCS reimbursement rates they felt were troubling to the district. We would be accepting less money for providing the same services. Parts of the RFP which were responded in a way to accept, for example, a 60% reimbursement as opposed to 70% in previous years. There were certain portions we felt we could not respond to. We were surprised to have the entire RFP rescinded. In regard to sole source, there could be a difference of opinion as to whether or not this could be a sole source. At the current time, the health care district is the only entity set up in Maricopa County to provide the services. There are many other hospitals in the valley that can set themselves up to provide the services.

Representative Boone asked if the specific basis on which the RFP was rescinded was evaluated by an attorney in terms of the Procurement Code. If so, what are the specific parts of the Procurement Code.

Ms. Charlie Gail Hendrix, Director, Valley of the Special Health Care District Board, said when an RFP is submitted a decrease of 10% is factored into the charges. In addition, 90 days is given to extend the current contract. The board is working to negotiate in good faith and trying not to duplicate services in the community.

Chairman Pearce adjourned the meeting at 1:47 p.m.

Respectfully submitted:

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Yvette Medina, Secretary

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Richard Stavneak, Director

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Representative Russell Pearce, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: August 25, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director
Carson Howell, Fiscal Analyst
Russell Frandsen, Fiscal Analyst

SUBJECT: AHCCCS – Review of Capitation Rate Change

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment system (AHCCCS) is required to report capitation and fee-for-service inflationary rate changes with a budgetary impact to the Committee for review prior to implementation.

Summary/Recommendation

These changes are estimated to create an approximately $14 million General Fund and $14 million County Match shortfall in the FY 2006 AHCCCS budget. The actual shortfall will also depend on enrollment growth. Current acute care enrollment is running near the budgeted projections while long-term care caseloads are slightly below forecast.

The Committee has at least the following options for both the Acute Care and Arizona Long-Term Care System (ALTCS) rates:

1. A favorable review of AHCCCS' proposed capitation rates as requested. AHCCCS would view this option as an endorsement of any potential supplemental request.

2. A favorable review with the stipulation that the favorable review does not constitute an endorsement of a supplemental request.

3. An unfavorable review. AHCCCS would most likely implement these rates even with an unfavorable review.

Additionally, JLBC Staff recommends that the Committee ask AHCCCS for a response to the Committee on what AHCCCS plans to do regarding using contractors' past performance in evaluating bids for its upcoming ALTCS Request for Proposals. The Auditor General has said that AHCCCS plans to reject an Auditor General's recommendation to include past performance in evaluating bids.

Since Title XIX and Title XXI are federal entitlement programs and states are required to provide reimbursement rates in managed care programs that are actuarially sound, capitation rates are not set by the Legislature. AHCCCS' actuaries use encounter data, financial information and projected enrollment to determine the actual cost of services, and thereby recommend increases or decreases in capitation and Fee-For-Service (FFS) rates.

AHCCCS has indicated that additional adjustments will be made to the capitation rates for both ALTCS and Acute Care on January 1, 2006. These adjustments result from implementation of the Medicare Modernization Act (MMA). Prior to those changes, AHCCCS shall report to the Committee after more information on the capitation rate impact of the Medicare Modernization Act (MMA) is obtained.

AHCCCS is proposing rate increases for the Traditional Medicaid population, the Title XIX Waiver Group (previously the MN/MI population), KidsCare rates, and the Arizona Long-Term Care System (ALTCS) EPD rates.

Analysis

Acute Care

This population represents members who participate in the Title XIX or Title XXI programs.

In FY 2006, the approved Acute Care budget estimated capitation rate growth at 6%. AHCCCS states that the increase in FY 2006 based on the proposed capitation rates will be 6.1%. Although this is slightly above budgeted levels, AHCCCS notes that it is too early to determine if a supplemental appropriation will be needed.

Increases in the cost and the utilization of pharmacy, physician, and inpatient benefits are responsible for more than 70% of the proposed changes. The remainder is primarily adjustments for administrative and outpatient/emergency room increases.

The capitation rate increases above the FY 2006 budgeted limit for the Title XIX population will be offset by some of the cost savings in the Proposition 204 population. Some of the proposed rate increases in the Proposition 204 population are below budgeted levels. Factoring these two populations, the overall Acute Care increase will be roughly $500,000 General Fund.

Long-Term Care (ALTCS)

ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community-based settings (HCBS).

The approved FY 2006 budget provided for a 5.0% capitation rate increase; however, the proposed ALTCS monthly capitation rate averaging approximately $3,170 for CY 2006 represents an increase of 14.3%. Based on enrollment projections used in developing the FY 2006 appropriation, the capitation rate change will result in additional state match costs of approximately $28 million above budgeted levels. Of the additional state match costs, approximately half would be realized by the state, and half by the counties in the form of additional county contributions.

The 2 main reasons for the higher than anticipated levels of spending include: (1) higher than appropriated rate increases from rate rebasing of ALTCS services, as required every 5 years by A.R.S. § 36-2959 and (2) the termination of the Maricopa Long-Term Care Plan. The rate rebasing resulted in a 7.6% increase for nursing facility rates. Home-based services rates rose 6.5%. In CY 2005 every program contractor in the state providing ALTCS services incurred operating losses. AHCCCS believes the rate increase will permit those plans to return to the historical average of about 2% profit.

The Maricopa Long-Term Care Plan (MLTCP) provided services at a lower price than its Maricopa County counterparts. In June 2005, MLTCP announced that it would stop serving clients effective October 1, 2005. With the termination of the Maricopa Long-Term Care Plan, former clients will now be served by the other, more expensive plans. In addition, MLTCP clients were more likely to be in lower cost HCBS services; the shift to other plans may change that mix, making it more expensive.

In recent months enrollment in the ALTCS program has been below forecast. As a result, the additional costs generated by the higher than budgeted capitation rates may be offset by lower than expected enrollment.

Table 1

Monthly Regular Capitation Rates

Populations	**Current CYE 05 Rate**	**Budgeted CYE 06 Rate**	**Proposed CYE 06 Rate**	**CYE 05 - CYE 06 % Change**
Traditional Medicaid/KidsCare				
Age<1	$378.69	$402.22	$415.99	9.8%
Age 1 - 13	97.10	102.83	104.47	7.6%
Age 14 - 44 (Female only)	171.73	182.00	185.59	8.1%
Age 14 - 44 (Male only)	119.27	126.27	127.46	6.9%
Age 45+	344.00	364.57	369.57	7.4%
SSI with Medicare	265.00	280.97	285.59	7.8%
SSI without Medicare	529.46	561.11	566.81	7.1%
Family Planning	15.43	16.26	16.35	6.0%
Deliveries	5,839.51	6,196.47	6,067.71	3.9%
Title XIX Waiver Group				
Prop 204 - Conversions	$416.64	441.97	$426.71	2.4%
Prop 204 - Medically Eligible	803.31	853.08	842.56	4.9%
Prop 204 - Newly Eligible	416.64	441.97	426.71	2.4%
Hospital "Kick" Payment	9,818.51	10,384.52	10,162.16	3.5%
ALTCS				
Statewide Average Rate	$2,773.34	$2,912.01	$3,169.55	14.3%

Auditor General Follow-Up

On a related topic, the Auditor General recently conducted a follow-up on their September 2002 performance audit report of AHCCCS and found that AHCCCS has not implemented the Auditor General’s recommendation to consider current contractors’ past performance for its ALTCS capitation rates.

AHCCCS feels the delay created from bidders contesting lost contracts does not outweigh the benefits derived from using past performance in evaluating the awarding of contracts. AHCCCS predicts that bidders would have 2 primary types of protests:

1) New bidders arguing that past performance unfairly excludes them.
2) Old bidders arguing that new bidders should not be on equal standing with them because they have no past performance.

As a general policy, the Arizona Department of Administration (ADOA) State Procurement Office has indicated that neither code nor statute prohibits evaluating vendor bids based on performance. ADOA feels that past performance is the best indicator of future performance.

AHCCCS states that they are continuing to have dialogue with the Auditor General on this issue. JLBC Staff recommends that the Committee ask AHCCCS for a response to the Committee on what AHCCCS plans to do regarding using contractors' past performance in evaluating bids for its upcoming ALTCS Request for Proposals.

Policy Changes

For AHCCCS Acute Care, four program changes are included as a result of other legislation and/or outside factors.

Outpatient Methodology
A change in outpatient and emergency room payment methodology based on Laws 2004, Chapter 279 was effective July 1, 2005. This is intended to help control costs and to allow for a better prediction of trends. The change in methodology is estimated to have increased costs of roughly $5.9 million General Fund. AHCCCS states that without this methodology change, the cost increase would have been even higher.

Parents Evaluation of Developmental Status Assessments
Changes in Parents Evaluation of Developmental Status (PEDs) Assessments are effective October 1, 2005. This will implement additional developmental assessments on AHCCCS Neonatal Intensive Care Unit babies. This will result in an increase of $38,000 General Fund.

Newborn Screening
Additional newborn screens for hearing deficiencies as well as babies who have certain serious medical conditions were passed as part of Laws 2005, Chapter 172 (SB 1250). The additional costs of the screens have been included in the calculation of the capitation rates for CY 2006. This will result in an increase of $1.9 million General Fund or 0.20%.

Ambulance Rates
Ambulance rates increased on May 1, 2004. These increases had been granted by the Arizona Department of Health Services (ADHS) to compensate for Medicare's decrease to emergency transportation rates. AHCCCS pays 80% of the established ADHS rate. Since the rates were effective during FY 2005, the full impact of the rate increase is now seen in the CY 2006 rates. The increase will result in an impact of $633,000 General Fund.

RS/CH/RF:ck

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DATE: August 25, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase

Request

Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) is presenting its proposed implementation plan for distributing a developmental disabilities (DD) provider rate increase totaling about $6.0 million General Fund (GF) and $13.6 million Total Funds (TF).

Recommendation

The JLBC Staff recommends a favorable review of the implementation plan, as it meets the requirements of the General Appropriation Act. All rates will be no less than 97.61% of the benchmark rates, or 94.58% after adjusting for inflation.

- All rates will receive an upward adjustment, expect for Habilitation, which in FY 2005 was paid at 112.09% of the benchmark rate. The upward adjustments paid to providers will be below the rate of inflation, however.
- All rates will be funded at a minimum of 97.61% of the FY 2005 benchmark in accordance with the footnote in the General Appropriation Act. This rate increase is equivalent to 94.58% of the FY 2006 rate adjusted for inflation.
- Day treatment rates were previously funded at a lower percentage of the benchmark rates compared to other services. They now will be paid at a comparable percentage, which is consistent with legislative intent.

Analysis

The FY 2006 General Appropriation Act (Laws 2005, Chapter 286) includes the following footnote in the DES budget:

"The amounts above include $6,000,000 from the state General Fund and $7,556,800 from matching federal expenditure authority to raise rates of community service providers and independent service agreement providers contracting with the Division of Developmental Disabilities to 97.61% of market rates for all services on the published rate schedule. It is the intent of the Legislature that the division request the Arizona Health Care Cost Containment System to approve a capitation rate increase retroactive to July 1, 2005 to make provider rate increases effective July 1, 2005. By July 1, 2005, the division shall have obtained approval for a rate increase implementation proposal from the Arizona Health Care Cost Containment System. By August 1, 2005 the division shall have submitted its implementation plan to the Joint Legislative Budget Committee for its review. The adjusted rates shall be implemented beginning with provider payments due for services performed in August 2005. Payment for retroactive reimbursement due for services provided in July 2005 shall be paid to providers no later than September 15, 2005."

As referenced in the footnote above, the Legislature added $6 million from the General Fund ($13.6 million in Total Funds) to help DES pay higher rates to providers for services. The additional monies were intended to bring reimbursement levels to at least 97.61% of the FY 2005 benchmark. Reimbursement rates had fallen in some cases to 89.06% of the benchmark.

As set forth in A.R.S. § 36-2959, benchmark rates for service are determined by a study conducted once every 5 years. Benchmark rates represent the going market rates, rates that would be paid by others for these services. The benchmark rates were originally set in 2001 and have been adjusted annually for inflation with the help of an independent consulting firm. Benchmarks are used as a basis for paying providers of contracted services.

The provider rates to be raised fall into 7 categories: Home-Based Services, Day Treatment, Group Homes, Nursing/Home Health, Therapies, Transportation and Employment Services. Home-Based Services provide qualified individuals to perform various hygiene and supervisory tasks for clients in their homes. Day Treatment programs help clients maximize their abilities through therapeutic activities and learning life skills. Group Homes provide clients with shelter, food and supervision. Nursing/Home Health serves the medical needs of clients. Therapies include occupational, physical and speech therapies. Transportation provides clients with transportation to their day treatment programs. Employment Services supervises and coordinates employment opportunities for clients. All of the services have variations in the rates paid to providers for different reasons. Actual provider rates paid vary based on location, size and occupancy while other rates vary based on urban or rural settings and distance traveled.

As seen in Table 1, in FY 2005 most services were paid at 95.75% of the FY 2005 benchmark with the exception of Day Treatment services, which were paid at 89.06% of the benchmark. All services were raised to at least 97.61% of their FY 2005 benchmark. For most services, this represents a 1.94% increase.

Table 1

	FY 05 rates % of FY 05 Benchmarks	FY 06 rates % of FY 05 Benchmarks	FY 06 rates % of FY 06 Benchmarks
Home-Based Services	95.75%	97.61%	94.58%
- Habilitation (Individuals)	112.09%	112.09%	108.62%
Day Treatment	89.06%	97.61%	94.58%
Group Home	95.75%	97.61%	94.58%
Nursing/Home Health	95.75%	97.61%	94.58%
Therapies	100.00%	101.94%	100.00%
Day Treatment Transportation	95.75%	97.61%	94.58%
Employment Services	95.75%	97.61%	94.58%

DES uses information from the federal Home Health Agency Market Basket to adjust benchmark rates for inflation. Using the Home Health Agency Market Basket inflation factor of 3.2%, the FY 2006 rates paid to providers falls to 94.58% (from 97.61%) of the FY 2006 benchmark.

Two services, therapies and habilitation for individuals, are being paid at higher percentages of their benchmark rates than the other services. DES states that they are having difficulty keeping therapists because of a general shortage of therapists and prices being paid to therapists by public schools and hospitals. The benchmarks for therapy services were increased 1.94% from FY 2005 to FY 2006. Pending a final setting of therapy benchmarks in the fall, therapy services will be paid at 100% of their FY 2006 benchmark. DES states that they have kept the higher habilitation rates for individuals because of market price demands and shortages. Habilitation rates are not being increased.

The largest increase in terms of dollars is the Day Treatment category, which DES estimates will receive approximately one-third of the $13.6 million TF increase (as seen in Table 2 below). Group Homes, Employment Services and Home-Based Services (both agencies and independent providers) delivering services such as attendant care, housekeeping, and respite will get most of the rest of the increase.

Table 2

	Cost to Raise to 95.75% SFY 05 Forecast	Cost to Raise to 97.61% SFY 05 Forecast	Total Cost SFY 05 Forecast
Home-Based Services		$2,536,496	$2,536,496
Day Treatment	$3,709,660	1,037,589	4,747,249
Group Home		3,087,852	3,087,852
Nursing/Home Health		316,133	316,133
Therapies		381,859	381,859
Day Treatment Transportation		96,191	96,191
Employment Services		2,480,188	2,480,188
Total FY 06 Increase	$3,709,660	$9,936,308	$13,645,968

AHCCCS reviewed and approved the capitation rate increases from DDD. AHCCCS will be submitting its updated capitation rates to CMS by the end of August. The Committee will have an opportunity to review the updated capitation rates at a future meeting.

The JLBC Staff recommends a favorable review of the proposal because all services will be brought to at least the target of 97.61% of the FY 2005 benchmark.

RS/RF:ck

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DATE: August 24, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo, Assistant Fiscal Analyst

SUBJECT: Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission (PSCC)

Request

Pursuant to Laws 2004, Chapter 281 the Department of Public Safety (DPS) has submitted for review, their FY 2005 fourth quarter expenditures and progress for the statewide interoperability design project.

Recommendation

The JLBC recommends the Committee request that the next quarterly report include explanation regarding accomplishments that directly relate to the updated timeline. In addition, the report should include information regarding the extent of the PSCC's involvement with the Department of Emergency and Military Affairs (DEMA) "short-term" interoperability solution and an explanation of how DEMA's "short-term" solution is anticipated to integrate with the PSCC's "permanent" interoperability solution.

Analysis

Background & Funding
Laws 2004, Chapter 275 appropriated $5 million (of which $2 million is lapsing) to DPS in FY 2005 for design costs of a statewide radio interoperability communication system. Radio interoperability allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency as well as daily emergencies. Construction costs of a statewide radio interoperability communication system are estimated to be as high as $300 million.

Expenditures & Progress
In FY 2005, the PSCC hired 5 of 9 positions and expended approximately $519,400 of their $5 million appropriation. As a result, $1,480,600 of their $2 million lapsing appropriation reverted back to the General Fund. The agency retains $3 million in non-lapsing monies of the FY 2005 appropriation. During the fourth quarter, the PSCC expended approximately $160,900 and funded costs associated with

the 5 staff positions including rent and the continued furnishing of the PSCC office. *Table 1* indicates fourth quarter and FY 2005 actual expenditures as well as the FY 2005 appropriation.

Table 1

PSCC Actual & Estimated Expenditures

	4th Quarter	FY 2005 Actual	FY 2005 Appropriation[1/]
Personal Services	$ 73,200	$135,600	$382,800
Employee Related Expenditures	11,200	20,400	104,200
Professional & Outside Services	(24,900)	125,500	4,040,500
Travel - In State	200	600	20,700
Travel - Out of State	-	-	15,900
Other Operating Expenditures	19,000	58,300	338,700
Equipment	82,200	179,000	97,200
Total Operating Expenditures	$160,900	$519,400	$5,000,000

[1/] The addition $3 million in non-lapsing monies are included in the Professional & Outside Services line.

As mentioned above, the PSCC has only filled 5 of 9 positions. Currently, they are in the process of drafting the job description for the technical writer position as well as advertising the 3 available telecommunication engineer positions nationwide. The PSCC has indicated they have conducted interviews for the 3 telecommunication engineer positions but have been unsuccessful in finding qualified candidates due to the department's salary levels. The PSCC original expenditure plan assumed higher salary levels for the 3 engineer positions than the DPS classification/compensation schedule allows. The PSCC planned to pay 2 engineers $80,000 annually with the third position receiving $71,900. However, DPS' approved pay plan compensates the positions in the range of $50,100 to $67,900, depending on the applicants experience and education.

In the review of the Commissions third quarter expenditures, the Committee requested that the DPS fourth quarter report "include an updated design timeline with specific goals and objectives for completion during FY 2006." As a result, the PSCC provided the attached updated time line. Based on the revised timeline, the PSCC will begin to identify potential technical solutions for interoperability in mid FY 2006 (originally scheduled for early FY 2007), leading to the implementation of a pilot project in FY 2008 (previously not included in timeline). The PSCC anticipates fostering a full deployment plan in the beginning of FY 2009, consistent with the estimated completion date in the original timeline. Previously not indicated in the original timeline, the PSCC estimates statewide interoperability will be achieved in the beginning of FY 2014. In addition, the PSCC and its commissioners have identified and prioritized 5 key issues that must be addressed "in order to change the interoperability in Arizona." These issues helped redefine the timeline and are listed as follows:

- Operational procedures and coordination
- Mutual aid operations
- Infrastructure enhancement
- Training
- Standards-based technology

The PSCC mission is to enable a long term interoperable communications system to allow communication between all public safety entities located throughout the state. In the meantime, DEMA is employing a short-term fix to increase interoperability between some public safety agencies. As a result, JLBC Staff recommends that the next quarterly report provide the Committee with a greater understanding of the relationship between the short-term and long-term solutions.

Pursuant to Chapter 281, part of the PSCC mission is "the promotion of the development and use of standard based systems." In pursuit of achieving this, PSCC Staff have attended and participated in various meetings with stakeholders. In the fourth quarter these meetings included representatives from the National Enforcement and Corrections Technology Center, Motorola Trunked users Group, 700 MHz Strategy Group, the City of Flagstaff, the Law Enforcement Coordinating Committee, RCC Consultants and the Marana Police Department.

RS/ML:ym

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HOUSE OF REPRESENTATIVES

DATE: August 19, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Tyler Palmer, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan

Request

Laws 1998, Chapter 6, 4th Special Session requires the Arizona Department of Administration (ADOA) to submit the wireless services portion of its Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan to the Committee for review. ADOA oversees and provides support to the communities of the state as they enhance their 911 emergency telecommunications systems. In practice, the department submits its complete expenditure plan annually, although expenditures on wire services are not subject to Committee review.

Recommendation

JLBC Staff recommends that the Committee give a favorable review to the $13.4 million wireless portion of the ETSF expenditure plan, with the provision that ADOA report back to the Committee by April 1, 2006 concerning the following:

- The basis for long-term revenues and expenditures
- The estimated costs to implement Phase I and Phase II
- The historical cost to support ongoing services for each of the following: basic 911, enhanced 911 with automatic number identification (ANI), enhanced 911 with automatic location identification (ALI), wireless Phase I, and wireless Phase II
- The current annual operating costs and the annual operating costs assuming full deployment

In FY 2006, ADOA expects to distribute $34.7 million from ETSF. Based on past expenditure patterns, however, this estimate could be high. Of the $34.7 million, $20.5 million would support existing wire services, $13.4 million would fund certain wireless deployments and maintenance, and $856,000 would cover ADOA administrative and management costs.

Beginning in FY 2008, ADOA projects an end-of-year deficit of $9.0 million, which would grow to $25.8 million by the end of FY 2010. Depending on actual county participation in pursuing E911 services for wireline phones and Phase I & II for wireless phones, the estimated amounts and time frame could fluctuate.

Analysis

Funding Mechanism

A.R.S. § 41-5252 taxes both wire and wireless telecommunications service accounts at $0.37 per month through FY 2006. The statute further mandates tax reductions to $0.28 per month in FY 2007 and $0.20 per month in all fiscal years thereafter. The statute does not tax other kinds of voice communication, such as voice over internet services. In FY 2006, ETSF will receive an estimated $27.8 million in revenues from the Emergency Telecommunications Services Tax. Interest income provides another $751,000, for total fund revenues of $28.5 million.

FY 2006 Distribution Plan

ADOA works with county/city 911 administrators to distribute monies from ETSF for FCC-compliant telecommunications equipment, software, carrier services, and maintenance. The county/city 911 administrator is responsible for:

- Working with the Public Safety Answering Point (PSAP)
- Organizing and attending project meetings
- Making decisions relative to routing and network design
- Serving as the point of contact for the state's 911 office
- Negotiating service agreements
- Ensuring that PSAP personnel receive necessary training and information
- Completing state 911 service plan
- Managing the 911 program

ADOA is responsible for providing centralized oversight, administration, management, and guidance in developing project schedules to consider the greatest needs, especially in rural areas, and for maximizing regional efficiencies and local readiness. While ADOA prefers that each county complete implementation phases as a whole, the department does make allowances for cities or areas that are behind or ahead of the county schedule. Localities must provide and fully fund their own personnel, utilities, and facilities. ADOA also requires communities to submit Wireless 911 Service Plans to the agency for its approval.

ADOA distributes funds to the localities upon receiving copies of their invoices for emergency telecommunications services and equipment. In FY 2006, ADOA expects to distribute $34.7 million from ETSF, including $6.1 million from the existing fund balance. Of the $34.7 million, $13.4 million is for Phase I and Phase II wireless services. The following table summarizes the ETSF distribution.

ADOA Emergency Telecommunications Services Revolving Fund FY 2006 Expenditure Plan

	Allocation
Wireless Services	
Equipment One Time Charge	$ 4,395,000
Network One Time Charge	2,737,000
Recurring Network Maintenance	6,236,000
Wireless Services Subtotal	$13,368,000
Wireline Services	$20,464,000
Administration	$ 856,000
ETSF Expenditure Plan Total	$34,688,000

Of the $13.4 million spent on wireless services, approximately $6.2 million is for recurring charges. Of the $20.5 million spent on wireline services, approximately $7.6 is for recurring charges.

911 Wireless Service Improvements

Federal Communications Commission (FCC) Report and Order 96-204, issued in 1996, ordered the development and implementation of 911 services for wireless telecommunications systems in 2 phases. Phase I requires local public safety answering facilities to be able to identify the phone number of, and nearest cellular tower to the caller, as well as to relay calls to the nearest emergency response center. Phase II necessitates answering facilities to be able to identify the exact location of the caller. Mobile service carriers must upgrade their systems to Phase II compliance by December 2005. The following list highlights the status of Arizona's wireless 911 deployments as of August 2005.

- Pima County completed Phase II deployment with all available carriers in April 2005
- Maricopa Region plans to complete Phase II deployment by October 2005
- Graham, Pinal, and Santa Cruz Counties have fully deployed Phase I with all available carriers
- Page-Lake Powell and Winslow areas have deployed Phase I

With the completion of Pima County and Maricopa Region (in October 2005), 80% of the access lines in Arizona will be Phase II compliant. The remaining sites that are Phase I compliant will be budgeted for mapping equipment during FY 2006. Completion of mapping in Phase I compliant regions is a major step in becoming Phase II ready. Additionally, Camp Verde, Cottonwood, Sedona, and the unincorporated areas of northern Yavapai County are conducting their mapping projects and will deploy Phase II during FY 2006. Most other areas of the state intend to meet Phase I requirements during FY 2006. For a more comprehensive description of emergency 911 deployments see the *State 9-1-1 Program FY 06 Project Plan* attachment.

FY 2005 Stipulations

At its August 2004 meeting, the Committee requested that ADOA report back on its recommendations for preventing a future ETSF funding shortfall by July 31, 2005. ADOA responded by stating it will have a need to either delay the implementation of the wireless program or to raise the excise tax commencing in fiscal year 2008.

Voice over Internet Protocol (VoIP)

The FCC has mandated that the voice over internet protocol (VoIP) providers be capable of delivering Enhanced 9-1-1 by late November, 2005. The network infrastructure will require upgrades to ensure that calls can be handled at the PSAP. Currently, advanced solutions are on the drawing board and have not totally been decided upon. Regardless, there will be costs associated with necessary network upgrades and changes to properly handle VoIP calls. Today, there are independent costs for calls being transported over existing technology. There is currently no funding mechanism in place to support VoIP technological advances for 9-1-1.

Future Outlook

The ADOA ETSF Expenditure Plan contains fund balance projections through FY 2010. Although it is likely that wireless services and its associated revenues will grow, the agency's projections do not account for this possibility. The ADOA projections indicate that, with the tax rate reductions in FY 2007 and FY 2008, ETSF will begin running deficits from FY 2008 onward. Beginning in FY 2008, ADOA projects the end-of-year deficit to be $9.0 million and growing to $25.8 million by the end of FY 2010.

Several factors contribute to the possible upcoming shortfall. Phase II implementations, which ADOA anticipates would not be completed until FY 2010, are more costly than its Phase I counterparts. ADOA also has some concerns over the effectiveness of Emergency Telecommunications Tax enforcement. Additionally, wire service growth is stagnating, as customers choose instead wireless services (which are taxed), out-of-state wireless telephone numbers, or VoIP services (which are not taxed in Arizona). The state also transferred a total of $15 million from ETSF to the General Fund during FY 2002 and FY 2003.

In August 2004, ADOA estimated that FY 2005 expenditures would be $35.3 million; however, actual expenditures over the course of the year were only $20.3 million. Some of this discrepancy may be attributed to lower levels of participation by rural counties than expected. Because the program is set up as a grant based program, counties and cities are responsible for implementing E911 services for wireline phones, and Phase I and II services for wireless phones. To date, ADOA has distributed fewer grants to rural counties than expected. If the trend continues, ADOA will be unable to meet its project plan for implementing E911 and Phase II throughout the state by FY 2010. The FY 2006 expenditure estimate, therefore, may be high, and the FY 2008 deficit estimate may be premature.

RS:TP:ck

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DATE: August 23, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leah Ruggieri, Fiscal Analyst

SUBJECT: Attorney General – Review of Uncollectible Debts

Request

Pursuant to A.R.S. § 35-150(E), the Attorney General requests that the Committee review its FY 2004 listing of $10.7 million in uncollectible debts referred to the Attorney General by state agencies for collection.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. A favorable review by the Committee will allow the State Comptroller to remove debt, certified by the Attorney General as uncollectible, from the state accounting system. The report meets the requirements of A.R.S. § 35-150(E).

Analysis

The Attorney General's Collection Enforcement Unit functions as a collection service for past due debts owed to state agencies, boards and commissions. The unit returns 65% of collected monies to the client agencies and retains the remaining 35% for unit operational costs. While the Collection Enforcement Unit is able to collect monies from many individuals and businesses that owe monies to the state, some debts are uncollectible.

The Attorney General's Office reviewed the cases assigned to the Collection Enforcement Unit. Based on this review, the Attorney General advises that $10.7 million owed to the state is uncollectible. Of this amount, the Attorney General lists:

- $3.6 million due to defunct corporations and limited liability companies;
- $2.6 million due to insufficient debtor resources;
- $1.7 million due to settlement;
- $1 million due to bankruptcy;
- $0.9 million due to inability to locate the debtor.

The remaining $0.9 million is listed as uncollectible due to the debtor being deceased, expiration of the statute of limitation, or because the cost of collection exceeds the amount of debt owed.

A debt amount is categorized as uncollectible due to insufficient debtor resources when the Attorney General determines that the debtor has no assets, no wages, and a negative credit report. Depending on the circumstances of the case, the Attorney General may wait anywhere from six months to ten years to determine a debt is uncollectible due to insufficient debtor resources. When a debt amount is determined to be uncollectible due to insufficient debtor resources and is removed by the State Comptroller from the state accounting system, the judgment remains recorded with the state and the lien imposed on the debtor is not expunged. Additionally, state income tax refunds will be offset by the amount of the debt.

Of the $10.7 million, approximately 81% are debts that were owed to four agencies, the Registrar of Contractors, the Arizona Department of Revenue, the Industrial Commission, and the Motor Vehicle Division within the Arizona Department of Transportation (ADOT). The remaining 19% are debts owed to 34 other agencies.

Uncollectible Debt Recommended for Write-Off by Client Agency

	Amount Recommended for Write-Off	Percentage
Registrar of Contractors	$3,300,100	31%
Arizona Department of Revenue	2,833,500	26%
Industrial Commission	2,135,400	20%
ADOT – Motor Vehicle Division	444,200	4%
All Others	1,999,100	19%
Total	$10,712,300	100%

By comparison, the state removed $24.5 million in uncollectible debt from the accounting system in FY 2003 and $9.5 million in FY 2002. The FY 2003 amount was much greater than FY 2002 and FY 2004 because of a small number of high value cases, including $9.2 million from 3 cases involving defunct corporations, and $5.9 million from 1 case involving a deceased debtor. The report includes an explanation for each uncollectible debt, the date the debt was determined uncollectible, and the dollar amount of each debt.

RS/LR:ck

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

DATE: August 18, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Leatta McLaughlin, Fiscal Analyst

SUBJECT: Arizona Commission on the Arts – Review of the Arizona Arts Endowment Fund and Private Contributions

Request

The Arizona Commission on the Arts requests the Committee review the report on private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request.

Since the advent of public funding in CY 1998, the Commission grants have helped to generate private donations. From CY 1998 to CY 2000, annual private contributions ranged from $4.4 to $6.6 million. The slowdown in the economy reduced annual contributions to between $2.0 and $2.7 million from CY 2001 to CY 2003. Private contributions rebounded in CY 2004 with, $5.4 million donated. Private contributions increased due to an improving economy and better communication with arts organizations, which allowed the Commission to encourage the arts organizations to raise more private funds for the endowment.

Analysis

Pursuant to A.R.S. § 41-986F, the Committee shall annually review the Commission's records regarding private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund. The Committee is to compare the level of private contributions to the state's annual $2 million contribution to the Arizona Arts Endowment Fund. There is no statutory requirement that private donations match public appropriations for the Arizona Arts Endowment Fund. At the time of the endowment's enactment, however, there was an expectation that additional state funding would leverage private contributions.

The public component of the legislation began in FY 1998 and consists of an annual appropriation of up to $2,000,000 to the Arizona Arts Endowment Fund from the General Fund. These monies are then invested by the State Treasurer, who distributes the interest income to the Arts Commission to fund arts programs across the state. Laws 2002, Chapter 1, 3rd Special Session suspended the FY 2002 and FY 2003 deposit to the Arts Endowment Fund and extended the final deposit to FY 2009 when the fund will have accrued $19,000,000.

Since FY 1998, the fund has earned approximately $1,544,500 in interest, $1,480,300 of which has been expended. In FY 2006, the Commission has committed $309,200 of these monies in the form of grants. The Arts Endowment Fund will have a principal balance of $13,000,000 in FY 2006.

The private component of the legislation allows the Arts Commission to partner with non-profits such that the non-profit may receive, invest, and manage private donations: 1) to its own endowment, 2) to the endowment of other arts organizations or 3) to the non-designated portion of the Arizona Arts Endowment Fund. Donors who wish to support endowments of a specific arts organization, such as the Phoenix Symphony, may do so. Such donations are administered by the individual arts organization but must conform to the rules adopted by the Arts Commission to qualify as a contribution to the Arizona Arts Endowment Fund. Several smaller arts organizations have arranged for the Arizona Community Foundation to administer endowments on their behalf. The Arizona Community Foundation is a tax-exempt charitable organization, which manages more than 700 funds with 11 affiliate organizations across the state.

Donors who wish to endow the arts generally, without designating a particular arts organization, may do so by giving to the private non-designated portion of the Arizona Arts Endowment Fund. The Arts Commission receives the interest income from these non-designated donations and distributes the earnings according to its policy.

The table below summarizes private contributions that have been collected since the establishment of the Arizona Arts Endowment Fund. Private contributions were less from 2001 to 2003 than in previous years due to the slowing economy. Contributions increased in CY 2004 due to the improving economy and better communication practices by the Arts Commission with their arts organizations.

Private Donations to the Arizona Arts Endowment Fund, by Calendar Year

	1996 1/	1997	1998	1999	2000
Designated	$1,682,700	$2,973,200	$5,799,600	$3,887,300	$6,559,000
Non-Designated	0	76,500	545,300	475,900	69,300
Totals	$1,682,700	$3,049,700	$6,344,900	$4,363,200	$6,628,300

	2001	2002	2003	2004	Total
Designated	$2,044,000	$2,728,500	$1,819,200	$5,066,600	$32,560,100
Non-Designated	(24,400) 2/	(44,500) 2/	191,000	162,100	1,451,200
Totals	$2,019,600	$2,684,000	$2,010,200	$5,228,700	$34,011,300

1/ 1996 reporting period is from April 15, when the legislation was passed, to December 31.
2/ Losses in 2001 and 2002 were a result of overall losses in investments at the Arizona Community Foundation.

RS/LMc:ck